

## **EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**

### **MINUTES OF THE OCTOBER 21, 2009 PENSION BOARD MEETING**

1. Call to Order

Chairman Dr. Dean Roepke called the meeting to order at 8:45 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford (Vice Chair)  
Donald Cohen  
Mickey Maier  
Jeffrey Mawicke  
Dr. Dean Roepke (Chairman)  
Guy Stuller

Members Excused:

Keith Garland  
Marilyn Mayr  
Dr. Sarah Peck

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services  
Mark Grady, Principal Assistant Corporation Counsel  
Gerald Schroeder, ERS Manager  
Gordon Mueller, Fiscal Officer  
Dale Yerkes, Assistant to the Fiscal Officer  
Vivian Aikin, ERS Administrative Specialist  
Monique Taylor, ERS Clerical Specialist  
Sushil Pillai, Milwaukee County Program Manager  
Bess Frank, Ad Hoc Oversight Committee  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Brett Christenson, Marquette Associates, Inc.  
Ray Caprio, Marquette Associates, Inc.  
Timothy Holihen, JPMorgan, Asset Management  
Robert Parise, JPMorgan, Asset Management  
Ken Loeffel, Retiree

3. Chairman's Report

The Chairman reported that this is the last meeting Mr. Mueller will be attending as Fiscal Officer because Mr. Mueller is retiring at the end of October. On behalf of the Pension Board, the Chairman thanked Mr. Mueller for his 17 years of

dedicated service to ERS. The Chairman expressed his gratitude for Mr. Mueller's commitment to ERS, his honesty, professionalism and willingness to go the extra mile to help ERS succeed. The Chairman presented Mr. Mueller with a plaque honoring Mr. Mueller for his service.

The Chairman distributed a draft 2010 Pension Board and committee meeting schedule for review. Mr. Schroeder indicated that he will send the schedule to the Pension Board members electronically and will also post the meeting schedule online.

The Chairman reported on planning for the annual meeting. He indicated that the annual meeting will be held on February 10, 2010 at the Zoofari Center and breakfast will be served to the attendees. The Chairman stated that Ms. Mayr approved of the annual meeting plans. The Chairman wished Ms. Mayr a speedy recovery from surgery.

4. Minutes of the September 16, 2009 Pension Board Meeting

The Pension Board reviewed the minutes of the September 16, 2009 Pension Board meeting.

**The Pension Board unanimously approved the minutes of the September 16, 2009 Pension Board meeting. Motion by Ms. Bedford, seconded by Mr. Cohen.**

5. Reports of Employee Benefits Director, ERS Manager and Fiscal Officer

(a) Retirements Granted September

Mr. Schroeder presented the Retirements Granted Reports for September 2009. He reported that 27 retirements were granted in September, noting that 12 retirees elected back DROPs, in amounts totaling \$994,500.

(b) ERS Monthly Activities Report, September

Mr. Schroeder indicated that there were 7,402 retirees at the end of September, and that ERS paid out \$12,487,264 in benefit payments in September.

Mr. Schroeder noted that ERS had achieved a 97% direct deposit rate for benefit payments. He stated that in October 2007, ERS issued 1,087 paper benefit checks per month and now ERS only issues 231 paper checks per month.

(c) Disabilities

1. Medical Board Reexamination Project Status

Mr. Schroeder provided an update on the status of the disability reexamination project. He noted that 36 cases were referred to the Medical Board for review. He reported that of the 29 cases that have been reviewed, all members were deemed disabled and are not subject to any future reexamination because their disabilities were deemed by the Medical Board as not likely to ever improve. He indicated that the remaining seven cases will be reviewed by December.

2. Excess Earnings Report

Mr. Schroeder reported that the annual ADR earned income review will be completed in December. He stated that the Retirement Office sent out 141 letters requesting the ADR recipients' statement of earned income and tax returns. He noted that 138 people returned the required information and none of the 138 exceeded the earnings limit. Also, two people requested extensions because they had not yet filed their tax returns. He commented that only one person had benefits suspended for not providing the required information. He stated that the project took 64 hours and approximately \$1,300 to complete.

(d) Cash Flow Report

Mr. Yerkes presented the cash flow report. He stated that the previously requested \$10 million per month draws should remain sufficient unless more cash is needed due to 400 speculated layoffs in December. He indicated that he is estimating that 100 of these 400 members would be eligible for retirement, which most likely would increase the back DROP payment amount. He noted that the 400 would need to be removed from the County books by December 11. Mr. Grady stated that the 400 person layoff figure is not definite and is only a maximum number.

In response to a question from Mr. Maier, Mr. Yerkes stated that ERS will only need additional funds if there are a high number of large back DROPs because ERS maintains a two-month cash reserve. The Chairman opined that the persons who would be laid off probably would not have large back DROP balances.

(e) 2010 Budget Highlight Preview

Mr. Mueller distributed and presented ERS's 2010 budget overview. He stated that ERS will have a sizable increase in its budget. He explained that investment manager fees will increase by approximately \$1.1 million because ERS has grown in asset size, and investment manager fees are correlated with asset size. He discussed a new expense, budgeted at \$267,000, for legacy pension and healthcare costs. He commented that this expense is required because of accounting pronouncement GASB 45, which requires accrual and not cash basis accounting.

Mr. Mueller stated that salaries and wages are expected to increase by \$329,600 because ERS is fully staffed, which includes two new positions. He indicated that outside services costs will increase \$6,000 because of the retention of a company to find lost OBRA members. He pointed out that outside consultant fees will decrease \$387,000 because of the transition of the V-3 System work in-house.

The Chairman stated that he recently has observed reports of CalPERS litigation against State Street over the misvaluation of securities.

Mr. Mueller commented that ERS's outside auditors want ERS to price some securities independently of Bank of New York Mellon. In response to a question from the Chairman, Mr. Christenson stated that Marquette can assist with pricing securities through its Bloomberg terminal.

(f) Status of V-3 Project

Mr. Pillai discussed the status of the V-3 project. He indicated that ERS released the pension side of the V-3 self-service module about one month ago. He stated that Vitech created a website for ERS that can be linked to from the County's intranet site where users can read FAQs and post questions regarding self-service functions. He pointed out that the life and health self-service module will be released in early 2010. He indicated that the plan is to continually update the V-3 System to address concerns even after Vitech transitions the work to the County. He pointed to the procedures manual as an example of a living document that will be used to update the V-3 System.

Mr. Schroeder stated the V-3 self-service training was held on September 23 and 24. He noted that approximately 700 people attended, of which 600 were retirees. He indicated that he received many positive comments regarding the V-3 System, the toll-free information line and the monthly newsletter. He commented that he will send out self-service information and instructions to members and retirees. The Chairman stated

that he stopped in on the training and he felt it was productive and well attended.

6. Investments

(a) JPMorgan Asset Management

Messrs. Parise and Holihen distributed a report and presented on JPMorgan Asset Management's management of ERS's core fixed income investment strategy. Mr. Holihen reviewed the composition of JPMorgan's fixed income team. He commented that the group has remained steady, with only two retirements in the last 15 years. He pointed out that JPMorgan recently added two new research analysts.

Mr. Holihen reviewed JPMorgan's investment process and reported that JPMorgan follows the same bottom up fixed income approach as it has in the past. He indicated that JPMorgan focuses on trying to find cheap securities and keep the duration figures close to the market to minimize interest rate sensitivity.

Mr. Holihen reviewed the performance of ERS's portfolio. He pointed out that ERS has outperformed the benchmark by 2.7% for the year to date. He indicated that JPMorgan's performance can be attributed to a slight overweight in corporates and an underweight in treasuries. He commented that JPMorgan prefers CMOs because of their structure and how CMOs provide more protection over interest rate fluctuation.

Mr. Holihen compared ERS's portfolio to the Barclays aggregate portfolio. He opined that interest rates will stay down for the time being until the Federal Reserve is convinced that the economy is out of the recession. He stated that 70% of the inflation is caused by wage push, which is difficult to see happening in the short term. He commented that the unemployment numbers are still disturbing.

Mr. Holihen stated that ERS has 504 holdings in its portfolio. He reviewed the sector distribution of the portfolio. He indicated that JPMorgan prefers to buy older mortgages or 15-year mortgages because people are more likely to pay them off and not default. In response to a question from Mr. Christenson, Mr. Holihen stated that CMOs are more predictable with respect to cash flows and less volatile than pass-throughs. Mr. Holihen explained that CMOs are comprised of structured mortgages, which are less impacted by interest rate changes than straight mortgage pools.

Mr. Holihen stated that ERS is well diversified over the maturity spectrum. Mr. Mawicke inquired how the current state of the U.S. dollar impacts JPMorgan's investment philosophy. Mr. Holihen noted that the U.S. economy experiences some type of "crisis" every seven years or so. He indicated that JPMorgan believes that the U.S. will continue to be the world's reserve currency and the world's safe haven. He commented that the U.S. economy will need to increase productivity by reducing wages to grow the economy out of the crisis, and this is how the U.S. will combat the prospect of China selling out of the U.S. dollar. He noted that JPMorgan is looking at inflation protected investments such as swaps. He stated that JPMorgan has confidence that the U.S. economy will come back in a strong fashion.

(b) Marquette Associates, Inc. Report

Mr. Caprio reported that ERS had approximately \$1.8 billion in assets as of September 30, 2009. He stated that ERS is within its target asset allocation for all asset classes. He reviewed that asset allocation for each asset class taking into account both the allocation with and without the pension obligation bond funds. He indicated that ERS was up 3.4% in September and 15.7% for the year to date. He pointed out that there have been strong rallies in domestic equities and fixed income sectors, with U.S. equities being up 25% year to date.

Mr. Caprio reported that most of ERS's managers have outperformed their benchmarks for the year to date. He indicated that the pension obligation bond funds have a positive return on investment since the funds were invested.

Mr. Caprio discussed the transition of funds to the small cap manager and the emerging markets manager. He noted that JPMorgan's transition bid was most appropriate for this transition. In response to a question from Mr. Grady, Mr. Caprio stated that the FMA investment has been funded and the new investment with Baring Asset Management will be funded on October 30 with pension obligation bond funds.

Mr. Christenson reviewed the status of the long-short equity RFP. He indicated that Marquette received 16 responses, of which 4 were eliminated for not meeting the minimum qualifications. He stated that Marquette will reduce the remaining 12 candidates to 6 within the next week. The Chairman and Messrs. Stuller and Maier volunteered to be on the long-short equity RFP panel and the Chairman commented that Dr. Peck probably would like to participate on the panel. Mr. Christenson stated that the panel could discuss the finalists after the November 2, 2009 Investment

Committee meeting because the last long-short educational discussion will be presented at the November 2 meeting.

Mr. Christenson discussed how ERS switched to nonsecurities lending index funds at Bank of New York Mellon due to the risks presented by securities lending. He indicated that the index funds' fees subsequently increased. He recommended that ERS perform a search for nonsecurities lending index funds. He commented that the core fixed income and equity index searches could be conducted together. Mr. Christenson stated that the last time a fee search was conducted for these investments was 15 years ago. The Chairman reported and Ms. Riley confirmed that the custodial fee is completely independent of ERS using Bank of New York Mellon index funds. Mr. Christenson stated that any RFP fees are included as part of Marquette's retainer.

**The Pension Board unanimously agreed to authorize Marquette to issue RFPs for nonsecurities lending index funds for core fixed income and large-cap core equities. Motion by Mr. Maier, seconded by Ms. Bedford.**

(c) Investment Committee Report

The Chairman stated that the most recent Investment Committee meeting had been cancelled.

(d) RFP for Infrastructure Manager(s)

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(s) with regard to item 6(d) to deliberate the investing of public funds due to competitive or bargaining reasons. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board voted by roll call vote 6-0 to enter into closed session to discuss agenda item 6(d). Motion by Ms. Bedford, seconded by Mr. Cohen.**

The Pension Board discussed the infrastructure investment manager RFP finalists in closed session.

**Upon returning to open session, the Pension Board voted 6-0 to select JPMorgan and IFM as ERS's infrastructure investment managers based on their respective expertise and operating histories, subject to successful contract negotiations, with such contracts to be executed by**

**Chairman Dr. Dean Roepke on behalf of the Pension Board, and to allocate \$60 million each to JPMorgan and IFM, using one or more of the approved transition managers to be determined by Marquette. Motion by Mr. Maier, seconded by Ms. Bedford.**

7. Audit Committee Report

The Chairman stated that the last Audit Committee meeting had been cancelled.

8. 2010 Employee and Retiree Elections – Votenet Contract

Mr. Schroder stated that the Retirement Office's recommendation is to hold the March employee election online, with a mobile voting unit and kiosks and hold the November retiree member election by phone at a total cost for both elections of \$8,995. He indicated that he spoke with Ms. Mayr who strongly supports phone voting for retirees. He noted that half of the retirees do not have computers. In response to a question from Mr. Stuller, Mr. Schroeder stated that the cost of an online and phone election in March and a phone election in November would be about \$11,495. Mr. Schroeder commented that an online and phone vote for an employee representative would, in his view, be confusing.

In response to a question from Mr. Stuller, Mr. Schroeder stated that 750 votes were cast in the last election. Mr. Schroeder indicated that ERS is considering expanding the election to cover Friday through Monday to increase the number of votes. He also reported that the Retirement Office will send an e-mail to explain the value of the Pension Board and voting in an effort to better promote the election and increase voter participation.

In response to a question from the Chairman, Mr. Grady stated that fraud is not a concern because VoteNet ensures only one vote is cast per member. In response to a question from Mr. Maier, Mr. Schroeder stated that holding the elections online and over the phone is more cost effective than the methods used prior years. In response to a question from Mr. Loeffel, Mr. Schroeder stated that a member cannot change his or her vote once it has been cast.

**The Pension Board unanimously agreed to hold the November retiree election by phone and the March employee election by phone and online. Motion by Mr. Stuller, seconded by Ms. Bedford.**

9. Administrative Matters

The Chairman noted that there was nothing to add to the future topics list.



The Chairman stated that the International Foundation of Employee Benefit Plans will be hosting its 56th annual benefits conference in Honolulu, Hawaii from November 13 through November 17, 2010.

**The Pension Board unanimously approved the attendance of any interested member at the International Foundation of Employee Benefit Plans 56th annual benefits conference in Honolulu, Hawaii from November 13 through November 17, 2010. Motion by Mr. Stuller, seconded by Mr. Maier.**

10. Prior BNYM Custodian Contract

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10, 11, 12 and 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board voted by roll call vote 6-0, to enter into closed session to discuss agenda items 10, 11, 12 and 13. Motion by Ms. Bedford, seconded by Mr. Cohen.**

The Pension Board discussed the prior custodian contract with Bank of New York Mellon in closed session.

11. Pending Litigation

The Pension Board discussed its pending litigation in closed session.

(a) Mark Ryan, et al. v. Pension Bd.

The Pension Board determined that there is nothing new to report.

12. Report on Special Investigation

The Pension Board determined that there is nothing new to report.

13. Report on Compliance Review

The Pension Board determined that there is nothing new to report.

14. Adjournment

The meeting adjourned at 12:45 p.m.

Submitted by Steven D. Huff,  
Secretary of the Pension Board